



**CITY OF EAST LYNNE, MISSOURI  
YEAR ENDED DECEMBER 31, 2001**

**From The Office Of State Auditor  
Claire McCaskill**

**Report No. 2002-56  
August 13, 2002  
[www.auditor.state.mo.us](http://www.auditor.state.mo.us)**

# AUDIT REPORT



Office Of The  
State Auditor Of Missouri  
Claire McCaskill

August 2002

The following problems were discovered as a result of an audit conducted by our office of the City of East Lynne, Missouri.

Our review of the city's utility records and procedures disclosed several concerns including:

- The city issued a revenue bond in 1986 for sewer improvements. The revenue bond covenant requires the city to establish several separate bank accounts and to fund these bank accounts with transfers from sewer operating revenues. Instances of non-compliance with the bond covenant included some required funds were not created by the utility department, utility funds were commingled, and the Sinking Fund was over-funded.
- As of December 31, 2001, the water fund had a negative cash balance and appears to be subsidized by the sewer fund. Additionally, the water fund has a water deposit liability of approximately \$13,000.
- Total gallons of water billed to customers is not reconciled to the total gallons of water pumped. In addition, no comparison of gallons of water purchased to gallons of water pumped from the city's water tower is performed.
- There is no oversight or adequate segregation of duties related to the city's utility system.
- The city does not maintain adequate records of water meter deposits.
- The city does not perform monthly reconciliations of total billings, payments received, and delinquent amounts for water, sewer, and trash services. At December 31, 2001, approximately \$1,600 was delinquent from water, sewer, and trash accounts.

The city does not have a formal bidding policy and does not enter into or retain written contracts for all services. Some payments were made prior to being approved by the board. Some expenditures did not appear to be prudent uses of public funds. Additionally, all check signers were not bonded, dual signatures are not required on checks, and timesheets are not submitted by some employees.

Also included in the audit are recommendations related to budgets and published financial statements, restricted revenues, board meetings and records, conflicts of interest, ordinances, accounting controls, elected officials' appointments, and street maintenance.

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YELLOW SHEETS

CITY OF EAST LYNNE, MISSOURI

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## STATE AUDITOR'S REPORT



**CLAIRE C. McCASKILL**  
**Missouri State Auditor**

To the Honorable Mayor  
and  
Members of the Board of Aldermen  
East Lynne, MO

The State Auditor was petitioned under Section 29.230, RSMo, to audit the city of East Lynne, Missouri. The scope of our audit of the city included, but was not necessarily limited to, the year ended December 31, 2001. The objectives of this audit were to:

1. Perform procedures to evaluate the petitioners' concerns.
2. Review compliance with certain legal provisions.
3. Review certain management practices.

Our audit was conducted in accordance with applicable standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and included such procedures as we considered necessary in the circumstances. In this regard, we reviewed minutes of meetings, written policies, financial records, and other pertinent documents and interviewed various personnel of the city.

Our audit was limited to the specific matters described above and was based on selective tests and procedures considered appropriate in the circumstances. Had we performed additional procedures, other information might have come to our attention that would have been included in this report.

The accompanying History, Organization, and Statistical Information is presented for informational purposes. This information was obtained from the city's management and was not subjected to the procedures applied in the audit of the city.

The accompanying Management Advisory Report presents our findings arising from our audit of the city of East Lynne, Missouri.

A handwritten signature in black ink, reading "Claire McCaskill". The signature is fluid and cursive, with the first name "Claire" written in a larger, more prominent script than the last name "McCaskill".

Claire McCaskill  
State Auditor

February 25, 2002(fieldwork completion date)

The following auditors participated in the preparation of this report:

Director of Audits:	Thomas J. Kremer, CPA
Audit Manager:	Todd M. Schuler, CPA
In-Charge Auditor:	Christina Brown

## MANAGEMENT ADVISORY REPORT

CITY OF EAST LYNNE  
MANAGEMENT ADVISORY REPORT  
STATE AUDITOR'S FINDINGS

<b>1.</b>	<b>Utilities</b>
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The city operates a combined waterworks and sewerage system that provides service, including trash service, to approximately 130 customers. Our review of the city's billings and collection records and procedures revealed the following concerns:

- A. The city issued a revenue bond in 1986 for sewer improvements. The revenue bond covenant requires the city to establish several separate bank accounts and to fund these bank accounts with transfers from sewer operating revenues. All utility revenues are deposited into the water/sewer departments' operating fund and transfers are subsequently made to another checking account, which is used to pay the various utility operating costs. We noted the following instances of non-compliance with the bond covenants:

Required Funds	Purpose	Non-Compliance with Bond Covenant
Operating Fund – currently maintained	Used to deposit all receipts earned from utilities.	Commingled utility funds.
Checking Account – currently maintained	All utility expenditures paid through transfers from operating fund.	Commingled utility funds.
Sinking Fund – currently maintained	\$480 monthly transfers from Operating Fund. Only need to transfer enough to cover next principal and interest payment, which for 2002 is \$5,725.	Balance at 12/31/01 \$13,500, over-funded by approximately \$7,775.
Bond Reserve Fund – Not in existence	Only used to pay off remaining balance of sewer bond. At least an annual transfer of \$580 to an aggregate amount of \$5,800, after sinking fund is fully funded.	Utility department has not created this fund.
Replacement & Extension Fund – Not in existence	Only purpose for repairs, maintenance, and extensions of sewer system. Excess sewer revenues should be transferred to an aggregate amount of \$5,800.	Utility department has not created this fund.



The failure of the city to comply with the revenue bond covenants could allow the bondholders to take legal action to force compliance or immediate payment of all outstanding bonds.

- B. As of December 31, 2001, the Water Fund had a negative cash balance of \$1,139 and appears to be subsidized by the sewer fund. As noted above, water, sewer, and trash monies are commingled in the same fund and at our request, the City Treasurer prepared a financial statement detailing the receipts, disbursements, and cash balances for all city funds, including the water, sewer, and trash funds. In addition to having a negative cash balance, the water fund has a water deposit liability of approximately \$13,000 which is not currently available to make refunds if necessary.

Revenues of the Sewer Fund represent user charges which are intended to cover the cost of providing the related services. It does not appear appropriate to subsidize Water Fund operations from Sewer Fund monies. As a result of this situation, sewer rates may be set higher than necessary to recover actual costs and city sewer customers are being required to subsidize the cost of water service through the payment of their sewer bills.

- C. The city does not reconcile the total gallons of water billed to customers to the gallons of water pumped. In addition, the city does not compare or reconcile gallons of water purchased to gallons of water pumped from the city's water tower. The Public Service Commission (PSC) generally recommends investigation if water usage not billed exceeds 15 percent. While we performed this reconciliation for a test month and found billings were within PSC guidelines, the city should perform this reconciliation monthly.

To help detect significant water loss on a timely basis and to help ensure all water usage is properly billed, the city should reconcile gallons of water pumped to the gallons of water billed on a monthly basis and compare these amounts to gallons of water purchased. Significant differences should be investigated.

- D. There is no oversight or adequate segregation of duties related to the city's utility system. The City Clerk performs all functions related to generating monthly utility bills, receipting and recording utility payments, depositing money received, monitoring accounts for delinquencies, and initiating service shutoff orders. It was also noted that some adjustments were made to accounts without board approval.

To safeguard against possible loss or misuse of funds, internal controls should provide reasonable assurance that all transactions are accounted for properly and assets are adequately safeguarded. Internal controls would be improved by segregating the duties of receipting and depositing monies from that of preparing bills, recording payments, and following up on delinquent accounts. If a proper segregation of duties cannot be achieved, at a minimum, there should be an

independent review of the reconciliations between utility billings and payments recorded and payments deposited, and an independent review and approval of credit adjustments and delinquent account follow-up.

- E. The city does not maintain adequate records of water meter deposits. The city indicated they have collected \$100 for water deposits from each customer, or approximately \$13,000, but do not have adequate documentation showing amounts collected, date paid, and payer. We also noted that the city does not have a written policy or procedure for collection of these charges.

To ensure the city is properly holding water deposits from customers, an accurate list of water deposits held by the city should be prepared, which includes the deposit amount and date received from each customer and the dates and amounts of all deposit refunds. This water meter report should then be reconciled monthly and supervisory review of the reconciliation should be documented to ensure records are in balance and all meter deposits are properly accounted for.

- F. The city does not perform monthly reconciliations of total billings, payments received, and delinquent amounts for water, sewer, and trash services. At December 31, 2001, approximately \$1,600 was delinquent from water, sewer, and trash accounts.

Monthly reconciliations are necessary to ensure that all accounting records balance, transactions have been properly recorded, and any errors or discrepancies are detected on a timely basis. Complete documentation of the reconciliation should be retained to support conclusions and any corrections made and to facilitate independent review.

**WE RECOMMEND** the Board of Aldermen:

- A. Ensure compliance with all applicable bond covenants.
- B. Closely monitor the ongoing financial condition of the utility funds, develop a plan to operate the Water Fund without further subsidies, and limit expenditures from the Sewer Fund to only those necessary to operate the city's sewer operations.
- C. Compare the gallons of water pumped to the gallons billed on a monthly basis and investigate significant differences.
- D. Segregate the duties of receipting and depositing monies from that of preparing bills, recording payments, and following up on delinquent accounts. If a proper segregation of duties cannot be achieved, at a minimum, there should be an independent review of the reconciliations between utility billings to payments deposited and payments recorded, and an independent review of and approval for credit adjustments and delinquent account follow-up.

- E. Ensure accurate records of water meter deposits are maintained by the city, including water deposits received, disbursed, and the balance, which should be reconciled on a periodic basis.
- F. Perform monthly reconciliations of the amounts billed to amounts collected and delinquent accounts. The board should periodically review related records to ensure amounts recorded on the records are accurate.

### **AUDITEE'S RESPONSE**

- A. *We agree and have implemented these recommendations.*
- B. *We agree and have taken steps to resolve these issues. Due to the fact that all utility funds have been commingled for years, there is no way to determine how much should have been in each fund. Records available from past years were not adequate to determine the accurate allocation of the utility funds, and the board made their best guess in allocating the January 1, 2001 balances. The board has now approved transfers of utility funds sufficient to cover the meter deposits in the water fund. The board is currently monitoring the utility funds very closely and have established procedures to account for water, sewer, and trash monies separately.*
- C. *We agree and have put in place the procedure to perform reconciliations.*
- D. *We agree and have implemented segregation of duties and proper approval of reconciliations.*
- E. *We agree and have implemented procedures to adequately account for meter deposits in the future.*
- F. *We agree and will begin doing this effective July 1, 2002.*

<b>2. Expenditures</b>
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- A. The city does not have a formal bidding policy. As a result, the decision of whether to solicit bids or proposals for a particular purchase is made on an item-by-item basis. During the past several years, bids or proposals were either not solicited or bid documentation was not retained in some instances. Bids were not solicited for a grasshopper mower (\$6,500) and proposals were not solicited for insurance (\$5,675), legal services (\$5,027), CPA services (\$5,500) and trash services (\$9,015) in recent years.

Formal bidding procedures for major purchases provide a framework for economical management of city resources and help ensure the city receives fair value by contracting with the lowest and best bidders. Competitive bidding helps ensure all parties are given an opportunity to participate in the city's business.

Bids/proposals can be handled by telephone quotation, by written quotation, by sealed bid, or by advertised sealed bid. Various approaches are appropriate, based on dollar amount and type of purchase. Whichever approach is used, complete documentation should be maintained of all bids/proposals received and reasons noted why the bid/proposal was selected.

- B. The city does not enter into or retain written contracts for all services. The city paid approximately \$23,000 to O&M Enterprises and approximately \$9,000 to Town & Country Disposal for utility services and trash disposal, respectively, during 2001 and had no contracts for these services. In addition, the city could not locate the contract with the city attorney.

Section 432.070, RSMo 2000, requires contracts for political subdivisions to be in writing. The city should enter into written contracts for services rendered or obtained. A written contract, signed by the parties involved, should specify the services to be rendered and the manner and amount of compensation to be paid. Written contracts are necessary to ensure all parties are aware of their duties and responsibilities and to provide protection to both parties.

- C. Although there is an occasional reference to a specific invoice being approved for payment, the board minutes usually only make a general reference that invoices are approved for payment. While utility bills are approved in advance, the City Treasurer prepares a listing of the previous month's disbursements from all other funds for the board's review, but this listing is not reviewed by the board until after payment has already been made. The Mayor signs the checks, but seemed unaware that the board had not approved the payments. The board indicated they did not realize the listing prepared by the City Treasurer contained the previous months disbursements. In addition, this listing of disbursements is not retained with the minutes.

To adequately document the board's review and approval of all disbursements, a complete and detailed listing of bills should be prepared, signed or initialed by the alderman to denote their approval, and retained with the official minutes. In addition, supporting documentation should be reviewed by the Board of Alderman before payment is made to ensure all disbursements represent valid operating costs of the city.

- D. The following expenditures do not appear to be prudent uses of public funds:

- 1. In December 2001, the Chief of Police received a \$500 Christmas bonus. This bonus appears to represent additional compensation for services previously rendered and, as such, are in violation of Article III, Section 39 of the Missouri Constitution and are contrary to Attorney General's Opinion No. 72, 1955 to Pray, which states, "...a government agency deriving its power and authority from the Constitution and laws of the state would be prohibited from granting extra compensation in the form of

bonuses to public officers after the service has been rendered.” In addition, the city did not take social security from the bonus; however, the bonus was included on the W-2 as wages earned. Section 105.300, RSMo 2000, defines an elective or appointive officer or employee of a political subdivision as an employee for social security tax purposes.

2. Approximately \$145 for flowers for a board member and cake, punch, and an employee plaque for a retirement party.

The city’s residents place a fiduciary trust in their public officials to expend public funds in a necessary and prudent manner. The above expenses do not appear to represent a necessary and prudent use of public funds.

- E. Aldermen Cox is authorized to sign checks. However, the city does not have bond coverage for him. Failure to properly bond all persons with access to assets exposes the city to risk of loss. Currently, dual signatures on checks are not required by the bank. Requiring two signatures on all checks would also provide additional controls over the use of the funds.
- F. Timesheets are not prepared by some of the employees and no supervisory review is noted on the timesheets. During 2001, the city did not require the City Treasurer or City Clerk to prepare timesheets. Timesheets turned in by all other city employees do not have documentation of supervisory review noted on them. Adequate control over payroll expenditures requires documentation, such as properly completed timesheets signed by employees and approved by supervisors, to provide evidence that the appropriate amount of time is worked each month.

**WE RECOMMEND** the Board of Aldermen:

- A. Establish formal bidding policies and procedures, including documentation requirements regarding the bids or quotes received and justification for the bid selected. Periodically seek proposals or competitively bid for services, such as insurance, legal, CPA, and trash, and enter into written agreements.
- B. Enter into a current contract with O&M Enterprises and Town & Country Disposal and ensure all contracts are maintained at city hall.
- C. Review and approve the expenditure of city funds prior to the disbursements being made. In addition, the approval of disbursements should be adequately documented by including a listing of all approved disbursements in the board minutes.
- D. Ensure all expenditures from city monies are a prudent use of public funds.
- E. Obtain adequate bond coverage for all persons handling city monies and require two signatures on all checks.

- F. Ensure timesheets are maintained and signed by a supervisor.

**AUDITEE'S RESPONSE**

- A. *We agree and will develop a formal bidding policy by October 1, 2002.*
- B. *We now have contracts for all services.*
- C. *Effective with the July meeting this will be implemented.*
- D. *We agree.*
- E. *We will obtain bond coverage for all applicable persons by August 1, 2002, and two signatures are now required for all checks.*
- F. *We are currently doing this.*

<b>3. Budgets and Financial Reporting</b>
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- A. The city's budgets did not comply with state law or were otherwise insufficient as follows:
1. A separate budget is not prepared for each city fund. For example, a combined budget is prepared for the General Revenue, Debt Service, Capital Improvement, Park Board, and Police Department funds. It is difficult to determine from the budgets prepared by the city what the revenue and expenditure estimates are for each fund. In addition, the city's budget included only one preceding year of actual receipts and disbursements, and the utility department budget did not contain any previous years receipt and disbursement information.
  2. The budgets did not reflect projected ending fund balances and did not include budget messages or general budget summaries describing the important features of the budget and major changes from the preceding years.
  3. Approval of the budget, and any subsequent amendments, is not adequately documented by the board. In addition, the reasons for budget amendments are not documented in the minutes.

Section 67.010, RSMo 2000, sets specific guidelines for the format of the annual operating budget. A complete and well-planned budget, in addition to meeting statutory requirements, can serve as a useful management tool by establishing specific cost and revenue expectations for each area of city operations. A complete budget should include appropriate revenue and expenditures estimations

by classification, and include reasonable estimates of the ending available resources of all funds. The budget should also include a budget message and comparisons of actual revenues and expenditures for the two preceding years. Sections 67.030 and 67.040, RSMo 2000, require budgets and budget amendments to be adopted by order, motion, resolution, or ordinance and reasons for amendments to be documented in a resolution. In addition, budgets and budget amendments should be signed or initialed by the board and retained with the official minutes to adequately document the board's approval.

- B. The Board of Aldermen did not approve the budgets for the year ended December 31, 2001 until April 9, 2001 and budgets for the year ended December 31, 2002 until March 18, 2002. In both years, the city paid monthly bills as normally scheduled without having an approved budget in place. Section 67.080, RSMo 2000, requires the board to adopt and approve budgets prior to the beginning of the applicable fiscal year.
- C. The city does not publish semiannual financial statements. Section 79.160, RSMo 2000, requires the Board of Aldermen to prepare and publish semi-annual financial statements. These financial statements are to include a statement of receipts and expenditures and indebtedness of the city for the preceding six-month period. In addition, Section 79.165, RSMo 2000, states the city cannot legally disburse funds until the financial statement is published.

**WE RECOMMEND** the Board of Aldermen:

- A. The board should ensure annual budgets include all relevant information required by state law, sign or initial budgets, and retain them with the official minutes. In addition, the budgets should be separated into the different funds.
- B. Ensure timely approval of the budget and prohibit spending until the approved budget is in place.
- C. Publish semi-annual financial statements as required by state law.

**AUDITEE'S RESPONSE**

- A& B. *We agree and will implement these recommendations, effective with the preparation of the 2003 budget.*
- C. *We agree and will begin doing this in 2003.*

**4.****Restricted Revenues**

- A. During the year ended December 31, 2001, the city deposited \$12,086 of state motor vehicle-related receipts into the General Revenue Fund. We requested the city provide us a listing of expenditures made with these receipts. Per the listing, during 2001, the city spent \$3,594 for street repairs and \$4,700 for police department expenses, leaving approximately \$3,800 unaccounted for. The city has not established a separate accounting for these receipts and related disbursements. Article IV, Section 30, of the Missouri Constitution, requires that motor vehicle-related receipts apportioned by the state of Missouri be used for street-related purposes, including policing, signing, lighting, and cleaning of roads and streets.

To ensure compliance with the Missouri Constitution, the city should maintain separate funds or separate accounting records of motor vehicle-related receipts and ensure these receipts are used only for the purposes allowed by the constitution. The excess monies received over those not identified as spent for the required purpose should be transferred into a separate fund.

- B. Law enforcement training fees are not accounted for separately or maintained in a separate fund. During the year ended December 31, 2001, the city received \$490 in training fees and had no documentation that it spent monies for training. Section 590.140, RSMo 2000, requires law enforcement training fees to be used only for the training of law enforcement officers. The city should determine law enforcement training fees collected and transfer the fees to a separate fund or maintain a separate accounting of the funds to ensure the fees are used in accordance with state law.
- C. Procedures have not been established to ensure expenditures are properly allocated among the various funds benefiting from the expenditures and to ensure restricted revenues are expended only for their intended purposes. We noted capital improvement sales tax funds not spent for their intended purpose and allocations of copier expenses and salaries which were not adequately supported by documentation.

In April 1996, city voters passed a ½ cent capital improvement sales tax to be used for the purpose of funding capital improvements. The city purchased a Grasshopper Mower with the majority of the funds, \$4,750, coming from the Capital Improvement Fund (additional \$1,750 from General Revenue). It appears questionable that this mower would qualify as a capital improvement. Apparently, the utility department has made all the payments for the lease/service agreement for the copier and all of the City Clerk's salary (\$14,424), which should be allocated between the various funds. The copier is used by the utility department, city, and police department; however, no payments have been made from the city or police department funds. During year-end December 31, 2001,



timesheets were not prepared by the City Clerk; therefore, no documentation is maintained to indicate the number of hours related to city, water and sewer, or other activities.

Section 94.577, RSMo 2000, states that all capital improvement sales tax receipts shall be deposited in a special trust fund and used solely for capital improvements. Allocations of expenses are necessary for the city to ensure the water and sewer rates are sufficient to cover the cost of providing the service without generating profits to subsidize other city services. Therefore, documentation and proper allocation of expenses is useful for both management and compliance purposes.

**WE RECOMMEND** the Board of Aldermen:

- A. Establish a separate fund for the motor vehicle-related receipts and ensure these revenues are used in compliance with the Missouri Constitution and state law.
- B. Establish a separate fund for the law enforcement training fees and ensure these revenues are used in accordance with state law and the Missouri Constitution.
- C. Ensure restricted revenues are expended for their intended purposes and all allocations of expenditures are supported by adequate documentation.

**AUDITEE'S RESPONSE**

A, B,  
&C. *These are currently being done.*

<b>5. Meeting Minutes and Ordinances</b>
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- A. Board minutes are prepared by the City Clerk; however, they are not signed by the Clerk or the Mayor. The board minutes should be signed by the Clerk and the Mayor upon approval to provide an independent attestation that the minutes are a correct record of the matters discussed and actions taken during the board meetings.
- B. Board minutes did not always include sufficient detail of matters discussed and actions taken. For example the minutes did not document the appointment of Chris Menning as aldermen, in June 2000 or the hiring of the Assistant City Treasurer. We also noted several instances where a record of votes taken was not recorded in the minutes.

Section 610.020, RSMo 2000, requires minutes of meetings be taken and retained by all governmental bodies and to include the date, time, place, members present, members absent, and a record of votes taken. Complete and accurate minutes of the board's meetings are necessary to retain a record of the business conducted and to provide an official record of board actions and decisions.

- C. The board regularly conducts closed meetings. Board minutes did not always indicate the reason for, votes taken, or decisions made in closed session. The city showed no evidence on how the following subjects would allow for a closed meeting: discussions on finishing grant paperwork, purchase of police uniforms, training for the police officer, a Christmas bonus for the police officer, and the purchase of accounting software.

Section 610.021, RSMo 2000, allows the board to close meetings to the extent the meetings relate to certain specified subjects, including litigation, real estate transactions, and personnel issues. Section 610.022, RSMo 2000, requires a closed meeting, record, or vote be held only for the specific reasons announced publicly at an open session. This law provides that public governmental bodies shall not discuss any other business during the closed meeting that differs from the specific reasons used to justify such meeting, record, or vote.

- D. Improvement is needed in the organization of the city's ordinances. The city's ordinances have not been codified, thus hindering the city's ability to locate specific ordinances. There were several ordinances missing from the official ordinance book. For example, ordinances establishing the sewerage system revenue bond and the city street general obligation bond were not in the ordinance book. In addition, the board has not adopted ordinances regarding such items as the tax rate levy, a formal description of duties of city officials, compensation of city officials, the term of the City Clerk, the current water rates, license fees, and building permits. These items should be set forth in ordinances to give the taxpayers information on how the city is to be governed.
- E. Ordinances are not always passed in accordance with state law. City ordinance #11701 (Traffic Ordinance) was read by title three times in a special meeting and passed. The mayor indicated this ordinance was not made available for public review prior to its passage. At the following meeting the Chief of Police introduced two additional sections to add to ordinance #11701, however, these were not read in full or by title, and the mayor indicated these additional sections were not made available for public review or displayed to the public before the Aldermen voted them into law. Section 79.130, RSMo 2000, requires when enacting ordinances to ensure that each ordinance is read by title or in full twice prior to passage and if read by title only, copies of the proposed ordinance shall be made available for public inspection prior to the time the bill is under consideration by the board.
- F. Public hearings were not held prior to establishing the property tax rates for 2001. The City Treasurer tried to have a property tax rate public hearing, however, only

one Alderman was present and no citizens attended. Therefore, she filled out the paperwork and submitted it without board approval. Section 67.110, RSMo 2000, states a public hearing is to be held on proposed rates of tax prior to the board's approval of the rates.

**WE RECOMMEND** the Board of Aldermen:

- A. Ensure board minutes are properly signed to attest to their accuracy.
- B. Ensure all significant discussions, actions taken, and information required by state law are included in the minutes.
- C. Ensure minutes document the vote to go into closed session, state the reasons for going into closed session and disclose required decisions made in closed session. In addition, the board should ensure only legally allowable, specified subjects are discussed in closed session, as required by state law.
- D. Ensure a complete and up-to-date set of ordinances is maintained. This would include passing new ordinances where appropriate and required.
- E. Ensure ordinances are passed according to the Missouri Statutes.
- F. Hold public hearings on proposed property tax rates as required by state law.

**AUDITEE'S RESPONSE**

- A. *This is currently done.*
- B. *We are now ensuring that adequate detail is included in the minutes.*
- C. *We are currently doing this.*
- D. *We agree and will have the ordinance book updated by March 1, 2003.*
- E. *Ordinances are now passed in accordance with state law.*
- F. *We will ensure this is done when setting the 2002 tax levy.*

<b>6. Conflicts of Interest</b>
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- A. The city has hired relatives of board members, however, they do not always keep adequate documentation of these decisions. The minutes for the December 2001 board meeting do not indicate whether Alderman Cox voted to hire his stepdaughter for the position of Assistant City Treasurer. Alderman Cox indicated he did not vote on this decision.

Because of the serious consequences which result by hiring a relative, the board should ensure its members abstain from any decision to hire a relative and ensure that action is fully documented in the board minutes. Discussions and decisions concerning appointments where nepotism or potential conflict of interest exists should be documented so that the public has assurance that no city official or agent has acted improperly. Board members should abstain from voting when a relative's employment or appointment is involved. In addition, the Board of Aldermen should consider establishing an ordinance, which addresses these types of situations and provides a code of conduct for city officials.

- B. The Board of Aldermen has not established a written policy for the issuance of building permits. The Board of Alderman indicated that building plans are required to be approved prior to the issuance of a building permit, but they have not established any formal policy defining the requirements. During 2001, the Board of Aldermen denied building permits to several citizens who did not present plans when they requested a building permit at board meetings. In March 2001, the Board of Aldermen approved a commercial building permit for the Mayor's wife without reviewing any plans for the proposed business. The Board of Aldermen requested the plans be brought in later for their review. The board had nothing to support this change from their usual procedure.

The Board of Aldermen should consider establishing an ordinance, which defines the requirements for approving permits to ensure fair and equitable treatment is extended to all citizens.

- C. The city regularly sends a newsletter to citizens with their utility bills, which includes information about upcoming events within the city and a copy of the minutes from the previous Board of Alderman meeting. The March 29, 2001 newsletter included a note from the mayor stating he was not planning to run for re-election as mayor, but if the citizens would like him to continue, they should write in his name for mayor on the ballot at the April election. City funds were used to pay for this newsletter and it does not appear proper for an elected official to use city funds to campaign for re-election. The mayor did not reimburse the city for the cost of preparing and mailing these newsletters.

**WE RECOMMEND** the Board of Aldermen:

- A. Ensure board members abstain from voting when a relative's employment or appointment is involved. Such matters should be completely documented so that the public has assurance that no city official or agent has acted improperly. The city should also consider adopting a code of conduct for city officials.
- B. Establish an ordinance detailing the requirements for obtaining a building permit.
- C. Ensure city funds are not used to propagate reelection into an elected office.

## **AUDITEE'S RESPONSE**

- A. *We will ensure better documentation is maintained regarding these types of situations in the future, and will adopt a policy addressing a code of conduct for city officials by March 1, 2003.*
- B. *We agree and will establish this ordinance by March 1, 2003.*
- C. *We will ensure this is not done in the future. The mayor indicated this statement was added by a former city clerk based on a private discussion regarding his plans for reelection, and was added to the newsletter without his knowledge. He will ensure his future messages do not address these types of issues.*

<b>7. Accounting Controls</b>
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- A. Prenumbered receipt slips are not issued for all monies received by the City Treasurer from the City Clerk. Since the Treasurer does not maintain regular office hours, city fees are paid to the City Clerk, who then transmits those fees to the City Treasurer. A receipt slip is issued for these fees by the City Clerk, but the City Clerk does not get a receipt slip from the City Treasurer when the funds are transmitted. To ensure all fees collected are transmitted, the City Treasurer and City Clerk should reconcile receipt slips issued to transmittals.
- B. Bank reconciliations are not performed monthly for four of the ten city bank accounts or for any of the utility department bank accounts. Regular monthly bank reconciliations have not been performed or documented for the following city bank accounts: Community Development Block Grant (CDBG) Account, Debt Service Account, Capital Improvement Account, and Police Department Savings. The utility department has three bank accounts which are not reconciled monthly. Monthly bank reconciliations are necessary to ensure the accounting records are in agreement with the bank records.
- C. The city and utility department have not established a complete financial accounting system. The City Treasurer and City Clerk do not maintain a fund ledger for all funds showing the beginning balances, monthly revenues and expenditures, and ending balances. The City Clerk maintains the utility department records, however, no fund ledgers are maintained to track the operations of the utility services. In addition, several of the bank accounts held by the city and utility department do not have check ledgers to use during reconciliations.

Summaries showing revenue sources and expenditure types should be prepared for each fund on a monthly basis and should be used for comparison to budgeted amounts and overall review of city operations.

Complete, organized, and timely accounting records are necessary to provide accurate and timely financial information to city officials upon which effective management decisions may be made.

- D. The city and utility department each have a petty cash fund, which are not maintained on an imprest basis. While both of these petty cash funds have little activity, ledgers should be maintained to show the receipts and disbursements and documentation of independent reviews or monthly reconciliations should be performed.

Invoices should be maintained for all petty cash disbursements and the fund should be operated on an imprest basis, meaning that cash and invoices should always total the established balance, and checks issued to replenish the fund should equal the amount of invoices. A ledger of all petty cash transactions should be maintained. Periodically, the fund should be counted and reconciled to the imprest balance by an independent person to ensure the funds are being accounted for properly, to detect any errors, and to prevent these monies from being misused.

- E. The utility department remittance slips are not retained, daily receipt reports are not printed, and reconciliation of the composition of receipts to deposits is not performed. To ensure daily receipts are recorded appropriately, the City Clerk should retain remittance slips from utility bills, print cash receipt reports, and reconcile receipts collected to the remittance slips, cash receipt reports, and deposit slips. Reconciling monies collected to the utility department receipt reports, remittance slips, and deposit slips would ensure all monies collected were deposited appropriately.
- F. Checks and money orders are not restrictively endorsed immediately upon receipt. To reduce risk of loss or misuse of funds, checks and money orders should be restrictively endorsed immediately upon receipt.

**WE RECOMMEND** the Board of Aldermen:

- A. Ensure receipts are issued to the City Clerk for fees collected and that documented reviews are done to ensure all fees collected are turned over to the City Treasurer.
- B. Ensure all bank accounts are reconciled monthly to account balances.
- C. Ensure that a complete financial accounting system is established including summaries documenting monthly revenue sources and expenditure types. This information should be used to monitor city and utility operations.
- D. Ensure petty cash funds are maintained on an imprest basis and periodically counted and reconciled to the imprest balance by an independent person. In

addition, invoices should be maintained for all petty cash disbursements and a ledger should be prepared of all petty cash transactions.

- E. Ensure remittance slips are retained, daily receipt reports are printed, and reconcile composition of receipts to deposits.
- F. Ensure checks and money orders are restrictively endorsed immediately upon receipt.

**AUDITEE'S RESPONSE**

- A. *We agree and will begin doing this effective July 1, 2002.*
- B. *Monthly bank reconciliations are now performed.*
- C. *A complete financial accounting system has been established and is currently being monitored by the board.*
- D, E,  
& F *We are currently doing these..*

<b>8. Elected Officials' Appointments</b>
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Former Aldermen Tim Taylor was elected in April 2000 to serve a two-year term, but resigned on June 12, 2000. On June 26, 2000 Chris Menning was appointed by the board to fill the vacancy. This position was not placed on the April 2001 ballot. The board did not seek any guidance from the city attorney on how to handle this situation.

Section 79.280, RSMo 2000, if a vacancy occurs in an elective office, the mayor and Board of Aldermen are required to appoint a successor who shall serve until the next regular municipal election, which would have been April 2001. The winning candidate at that election then serves the remainder of the un-expired term, in this instance, until April 2002.

The Board of Aldermen should ensure that any future vacant offices are filled in compliance with state law.

**WE RECOMMEND** the Board of Aldermen ensure vacant elective offices are filled in compliance with state law.

**AUDITEE'S RESPONSE**

*We will do this in the future.*

An annual maintenance plan for city streets has not been prepared. A formal maintenance plan should be prepared in conjunction with the annual fiscal budget and include a description of the streets to be worked on, the type of work to be performed, an estimate of the quantity and cost of materials needed, the dates such work could begin, the amount of labor required to perform the work, and other relevant information. The plan should be included in the budget message and be approved by the board. In addition, a public hearing should be held to obtain input from the city residents.

A formal maintenance plan would serve as a useful management tool and provide greater input into the overall budgeting process. Such a plan provides a means to continually and more effectively monitor and evaluate the progress made in the repair and maintenance of streets throughout the year.

**WE RECOMMEND** the Board of Aldermen prepare a formal maintenance plan for city streets at the beginning of the fiscal year and periodically update the plan throughout the year. In addition, the board should review the progress made in the repair and maintenance of streets to make appropriate decisions on future projects.

**AUDITEE'S RESPONSE**

*We will prepare a plan in conjunction with the 2003 budget.*

This report is intended for the information of the management of the city of East Lynne and other applicable government officials. However, this report is a matter of public record and its distribution is not limited.



## HISTORY, ORGANIZATION, AND STATISTICAL INFORMATION

# CITY OF EAST LYNNE, MISSOURI HISTORY AND ORGANIZATION

The city of East Lynne is located in Cass County. The city was incorporated in 1871 as a fourth-class city. The population of the city in 2000 was 300.

The city government consists of a mayor and four-member board of aldermen. The members are elected for two-year terms. The mayor is elected for a two-year term, presides over the board of aldermen, and votes only in the case of a tie. The Mayor, Board of Aldermen, and other principal officials at December 31, 2001, were:

Elected Officials	Term Expires	Compensation Paid for the Year Ended December 31, 2001	Amount of Bond
Roy Sparks, Mayor	April 2003	\$ 390	\$ 79,000
Charles Feagly, Aldermen	April 2003	200	0
Robert Cox, Aldermen	April 2003	375	0
J. David Martin, Aldermen (1)	April 2002	275	0
Chris Menning, Aldermen (2)	April 2002	375	0
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Other Principal Officials			
Karen B. Roberts, City Clerk (3)		212	79,000
Iva J. Cox, Board Treasurer		2,400	79,000
William D. Roberts, Chief of Police		25,656	0
Fred Wiley, City Maintenance		1,225	0
Vacant, City Animal Control Officer			

(1) Re-elected in April 2002.

(2) Tim Taylor resigned in June 2000. Chris Menning was appointed by the Board of Aldermen in June 2000. Bill Gregg was elected to this position in April 2002.

(3) Replaced Rachel L. Murray who resigned in December 2001.

Assessed valuations and tax rates for 2001 were as follows:

ASSESSED VALUATION

Real estate	\$ 1,160,894
Personal property	375,856
Total	<u>\$ 1,536,750</u>

TAX RATES PER \$100 ASSESSED VALUATION

	Rate
General Fund	<u>\$ 0.81</u>
Debt service	1.22

The city has the following sales tax; the rate is per \$1 of retail sales:

	Rate	Expiration Date
General	<u>\$ 0.005</u>	<u>None</u>

CITY OF EAST LYNNE, MISSOURI  
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH - VARIOUS FUNDS  
 YEAR ENDED DECEMBER 31, 2001

	General Revenue Fund	Debt Service Street Fund	Capital Improvements Fund	Park Board Fund	Police Fund	Water Fund	Sewer Fund	Trash Fund	Total
<b>Receipts</b>									
Property taxes	21,183.91	16,257.92	3,648.31						41,090.14
Sales taxes	7,158.11								7,158.11
Franchise taxes	11,558.08								11,558.08
Gas and motor vehicle taxes	12,086								12,086
COPS Grant					17,661				17,661
Permits and Licenses	511								511
Fines Received					16,717				16,717
Water fees						62,739			62,739
Sewer fees							43,962		43,962
Trash fees								9,015	9,015
Meter deposits						50			50
Reconnect fees						865			865
Culverts	3,220								3,220
Interest	1,540								1,540
Other	1,013			555	4,782		5,707		12,057
<b>Total Receipts</b>	<b>58,270</b>	<b>16,258</b>	<b>3,648</b>	<b>555</b>	<b>39,160</b>	<b>63,654</b>	<b>49,668</b>	<b>9,015</b>	<b>240,230</b>
<b>Disbursements</b>									
Salaries and fringe benefits	10,166				22,798	7,212	7,212		47,389
Council Salary	2,559								2,559
Tri County Water Authority - Water Service						42,387			42,387
Water and sewer management fees						11,832	11,832		23,664
Equipment purchases and repairs	5,493		4,750		4,336	2,304	2,721		19,604
Loan/bond payments for Sewer System							5,750		5,750
Professional Fees - Legal and CPA	7,927								7,927
Utilities	5,740			70		1,079	2,132		9,021
Trash Contract Payments								9,015	9,015
Police department - Payment for Salary	4,700								4,700
Supplies	602			162	399	2,004	683		3,851
Insurance	3,749					963	963		5,675
Animal Control	809								809
Other	1,993	166		44	2,854	2,013			7,070
<b>Total Disbursements</b>	<b>43,737</b>	<b>166</b>	<b>4,750</b>	<b>276</b>	<b>30,388</b>	<b>69,794</b>	<b>31,293</b>	<b>9,015</b>	<b>189,420</b>
RECEIPTS OVER (UNDER) DISBURSEMENTS	14,533	16,092	(1,102)	279	8,773	(6,140)	18,375	0	50,810
CASH, January 1, 2001	35,893	450	5,900	2,804	1,178	5,000	75,300	36	126,560
CASH, December 31, 2001	50,426	16,542	4,798	3,082	9,951	(1,140)	93,675	36	177,370